International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 06 Issue: 10 | October - 2022 Impact Factor: 7.185 ISSN: 2582-3930

# Role of Corporate Governance in Organisation - A Study of Select Companies.

Sanjit Sarkar
Research Scholar
Kazi Nazrul University, Asansol, West Bengal, India

**Abstract:** Every global company follow corporate governance framework for maintaining high transparency and accountability. The study has been focused on Indian economy for giving a contrasting effect reflection of international economies. Firm performance is being impacted by internal control, remuneration and disclosures on shareholders rights. Economic downturns, maligned reputations and numerous scandals are raising factors that have created necessary CG (Corporate Governance) regulations. Most of the large global companies are putting effort in building concrete steps towards better CG to convert hard labour into profitability. "Market Based" and "Accounting Based" performance helps to evaluate a company's on-going capacity to earn a better position of profitability. GOI formed "Companies Act 2013" with an objective to fulfil various regulations related to good governance. Accounting performance provides past financial information of a company and creates a scope for forecasting financial statements properly. ROA, ROE, ROS, "Net Profit Margin", and "Return on Capital Employed" (ROCE) are certain mentionable techniques used to measure accounting performance. Further demographic analysis, descriptive statistics and correlation has been used to analyse the relation between corporate governance and financial performance. Data has been collected with the help of survey method and SPSS has been used to analyse the data. For a company or an organisation, it is essential to have proper corporate governance. This is because it helps in the improvement of the financial performance which results in the steady growth of the company. Therefore, this research has deduced the importance of corporate governance through the selected number of survey participants and applying SPSS.

**Keyword:** Corporate Governance Reforms, Financial Performance, Business Responsibility Reforms, Corporate Social Responsibility, Return on Capital, Return on Assets, Companies Act 2013, Indian Economy

## 1. Introduction

A set of rules, regulations, processes and practices adopted by a company to run its business processes legally is known as "***corporate governance***" (CG). Companies around the world prepare rules and regulations directing corporate governance mechanisms for maintaining a balance of external as well as stakeholders' interests [1]. Customers, suppliers, investors are considered as the external stakeholders whereas employees', management executives and shareholders are internal stakeholders. Global companies establish a corporate governance framework for easily achieving company's objectives with practical actions capturing the entire sphere of management. Every company looks over every minute of internal controls and action plans for quick measurement of financial performance to proper disclosure of corporate information.

Currently, worldwide corporate governance reforms are being taken at different points of time. The intention behind this initiative is to prepare goods reforms for preparing effective solutions that are addressing the country-specific challenges. In order to narrow down this study, the Indian context is going to be portrayed for identifying current corporate governance reforms and its impact on various companies' financial performance. The study will be segregated within two reform periods likes "***(FY 2012-13 as Period 1)***" and "***(FY 2015-16 as Period 2)***" to analyze incorporation of corporate governance by Indian companies.

The new "Companies Act 2013" has prepared a "corporate governance index" for measuring CG scores of different Indian companies. Implications of varied existing sectors will be reflected in this entire study for understanding effective CG practices in the entire country [2]. Earlier, the usage of CG was not a mandatory legal requirement by any companies however due to sudden corporate failures and rise of unethical practices has strengthened CG framework. "The ***Cadbury Committee report in United Kingdom (UK) in 1992*** and ***Sarbanes Oxley (SOX) Act in United States (US) in 2002***" are being determined for CG regulations. Development of those regulations is followed by other rest countries in the world with "similar codes of good governance".

## 2. Recent Developments within Corporate Governance

The growth of CG reforms has gained importance within India due to high requirement of capital by various companies to expand in future times. Development of CG reforms is moving towards more accountability and transparency to make companies more adjustable with economic governance system. "***Foreign Direct Investment***" is one of the primary sources for acquiring capital for running smoothly without any financial disruption. Modification within CG reforms has become more prominent within every country as the need for FDI has risen among different companies. In India, SEBI has focused on preparing effective CG reforms for helping out companies to follow good governance. Frequent updating of rules, guidelines, and regulations from the SEBI's end helps to ensure accountability and transparency by companies of various sectors. "***Confederation of Indian Industry (CII)***" is an independent institution that is working with Indian Government to prepare policy issues [3]. In this essence, SEBI has adopted Clause 49 in 1999 from the "code of governance" for preparing good CG regulations.

Corporate, environmental, and social backgrounds are being covered by the CG reforms established by Indian Government. In order to adjust with all the stated backgrounds "Ministry of corporate affairs" and "Government of India" published "***National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business***" in the year 2011. Every registered company is under regulation to follow the rules mentioned within guidelines for preparing "***Business Responsibility Report***" (BRR) for improving the disclosure quality. Enhancement in disclosure ensures any listed company is unable to do illegal activities within its operational activities. Establishment of "***Companies Act 2013***" easily replaces "***Companies Act 1956***" with an objective to include more improved CG regulations within companies' performance. Gradual development in CG reforms has helped to secure interest of a company's minority shareholders. In addition to this, the true picture of a company's financial condition is reflected by following a set of rules and regulations put forward by 2013's company act.

Among all other countries in the world, India is the first country that has made mandatory rules to follow "***Corporate Social Responsibility***" (CSR) as a result most large enterprises within India prepare strategic ideas to generate enough profit for maintaining CSR effectively. Other companies belonging from different countries follow Indian model for developing strategic ideas to implement CG policies and follow CSR. Protecting shareholders' rights, proper as well as timely disclosure of financial statements, certification of "Chief Financial Officer" for maintaining authenticity, equal treatment of shareholders, enhanced responsibility for preventing "insider trading" are certain modifications that are being done in the latest revision of clause 49 in 2014. Functionality of CG reforms in India is contrasting with that of UK and US [3]. Indian's CG reforms are being developed with a motive to improve accountability, transparency, including discipline within dominant shareholders and protecting interest of minor shareholders. On the other hand, establishing CG reforms in the UK and US are being done to concentrate on being more "accountable to dispersed shareholders". Currently, "UK Corporate Governance Code 2018" is being applied to UK-based companies for creating an emphasis on building up better relationships between companies, stakeholders, and shareholders.

## 3. Impression of "Corporate Governance Reforms" on disclosures

Almost all countries around the world, issue general guidelines that create a pathway for companies to follow governance, environmental and social reporting at the end of a financial year. The result of impact from CG regulations becomes clear only when entire corporate world's response and reporting becomes clear. Many global economists study the impact of CG reforms creating an impression on companies' performance disclosure in front of stakeholders. Improvement in disclosing social, environmental activities taking place within business operations has become prominent after the establishment of CG reforms around the world. Initiatives in improving transparency and accountability have become clear within ***Portugal, Guzman and Monteiro*** in the post-reform period. Comparing between post and pre-reform periods in these three countries, there is an increasing trend in rate of disclosure. Improvement in “sustainable development” after introduction of new reforms has become visible in C***hina, Denmark, South Africa and Malaysia***[4]. More disclosure of required financial information from the company's end belonging to those countries has helped in enhancing firm value. Companies from ***Japan and Europe*** are starting to focus more onboard supervision, compliance of ethics and other external verifications after reforms build up regarding disclosure of regulations. In China emission of Sulfur Dioxide and proper management of industrial waste becomes highly prominent within the entire country after incorporating CSR strategies within business operations. However, most Chinese companies mentioned in CSR reporting profitability have decreased after including CG rules and regulations.

Currently, the Indian Government is taking an active initiative to build by CG reforms for improving disclosure from the end of Indian companies and projecting CSR in front of a company stakeholder. This government has faced more difficulty in forming CG reforms than implementing those reforms into Indian companies. Comprehensive rules and local inhibitions are certain challenges faced by Indian Government for effective as well as successful enforcement of reforms. Furthermore, issues become more complex due to non-availability of "qualified independent directors", "multiple regulatory norms", and a poorly developed "external monitoring system" [5]. The requirement of assessing actual impact of CG reforms on Indian companies has become more important in order to decrease existing issues and minimize further rise of issues.

The existing Indian CG regulations give rise to the concept of ***“comply or explain”*** and this concept is being followed by most the global companies. Inner meaning of this "comply or explain" concept provides a norm to companies that follow the mandatory CG rules or provide an explanation for not observing the rules. Moreover, companies that do not comply with CG regulations are not being penalized but providing proper justification is highly necessary. Certain companies follow good governance even before formation of the CG framework while there are certain companies that improved itself after the formation of CG reforms [6]. Hence, it is essential to focus on practical implications of existing CG reforms for every policy maker of Indian companies. Constant modification in structural change within CG reforms has created an interesting space to research on impact of every reform on a company's functionality.

## 4.“Corporate Governance Reforms” impact on different sectors

Economists of different countries started studying impact of CG on different existing sectors that exist within the corporate world. Impact of CG on firm performance becomes highly prominent in textile, banking, finance, and other service sectors of India. On the basis of the global context, “***Amman Stock Exchange***” performed in a much better way after the introduction of new CG reforms compared to “***Jordan Stock Exchange***”. The US’s banking sector started disclosing better company’s information with increased transparency after improvement in CSR regulations. Improvement from the Nigerian Banking Sector has also become visible after significant steps have been taken by government for safeguarding the interest of stakeholders. The Indian government has taken a series of initiatives within existing reforms for improvement of functioning in capital market and diverting the entire functionality of a company's broad processes towards CSR [7]. Impact of improved CG is being measured by setting a benchmark on a company's performance. In addition to this, a set of listed companies belonging to different stock exchanges are primarily being selected to make a comparison between different economies.

Listed companies of "New York Stock Exchange" have higher capacity in showing market valuation with low operational expenditure. Better governed companies belonging from "Financial Times Stock Exchange" within Eurotop 300 index have higher potential higher stock returns to every existing stakeholder for enhancing firm valuation. On the other hand, US listed companies provide a positive relationship between CG rankings and firm performance. "***Return on Capital***" and "***Return on Assets***" are two different factors that are being used by most of the companies for making a judgement on financial performance as well as creating a smooth path for CSR [8]. Swiss and Italian firms use these two variables effectively for making a proper assessment on corporate performance and financial disclosure to company stakeholders.

Traditionally, CG was not convered for mid-cap and small companies in India but increased active shareholders movement has tightened up the disclosure regime. Currently, blue-chip companies to any large leading company within an industry are being covered under proper CG framework. Many renowned companies within India's corporate world such as ***Sun Pharma, IndiGo Airlines, Zee Entertainment, IndiaBulls Housing Finance and Yes Bank*** in the last year face an allegation for lacking in CG regulations. Lack of proper CG regulations within different companies of varied sectors has given rise to 4552 whistle-blowers from Nifty 50 Index companies [9]. The lack of proper CG regulations independent directors of different Indian companies existed and the rate was 54% in the year 2019 according to the data of nseinfobase.com. Furthermore, nearly 58 auditors were stepped in mid 2019 as compared to financial year 2018 for increasing accountability and transparency from the end of Indian companies. Currently, SEBI takes a prompt move through including proper regulations within Companies Act for minimizing "illegal fund mobilization" [40]. Since, "47 out of the total 65 reports" regarding fraudulent activities falls under the mobilization of funds in an illegal manner.

## 5. Evaluation of Firm Performance through Corporate Governance Reforms

The usage of CG is considered as a significant variable to interpret growth level of an economy. The reason is to incorporate best governance practices to minimize investor's risk, improve financial performance, and capture more investors. "Return on Capital" and "Return on Assets" are two different factors that are being used by most of the companies for making a judgment on financial performance as well as creating a smooth path for CSR. It is being documented that better CG provides an outcome in form of "***higher market valuation***" [10]. Listed companies in France, Japan, UK, US and Italy use ROA as a variable to measure financial performance and present it in financial statements. Companies from Hong-Kong Stock market confirms that firms that have already adopted CG framework within business operations for better trade off risk return to a company's existing investors. Collaboration with foreign companies with improved equity market performance has been highly visible within Korean companies after usage of corporate governance practices. Furthermore, reduction in equity capital has become possible through US-based companies with improved corporate governance. NYSE listed companies do not have any correlation with "corporate governance measurement" and "future stock performance" [39]. On the other hand, in Iran a positive correlation within a company's performance has become prominent between "ownership of independent board" and company's earnings.

Among the series of established Indian companies "***Tata Power Company Ltd***.", "***Cipla Ltd***." and "***Dr. Reddy's Laboratories***" are three new entrants that have created a position within "Indian Corporate Governance Scorecard" [11]. These companies are able to improve standards within business operations to build good governance practices. Best governed companies within India's corporate world are "***Hindustan Unilever Ltd.***", "***Housing Development Finance***

***Corporation Ltd.***", and "***Infosys Ltd.***". HUL follows a "multi-stakeholder model" and the entire stakeholder is being segregated into six major groups to observe the CSR activities taken within the company's operations. Some famous CSR activities by this company are "Project Shakti", "SwachhAadatSwachhBharat", and "Prabhat" [38]. All the initiatives are being taken for building a better future generation and sustainable world. Most of HUL's CSR activities are being focused to eradicate poverty, hunger and spread the power of education among rural people of India [12]. HUL tries to maintain transparent CG regulations through its business mechanisms in order to maximize profit level and high engagement of shareholders through an enhanced market value within the industry. Consumers' of HUL are highly satisfied with the high-quality saleable items helping this company to achieve Rs1519 crores profit in FY2019 which jumped to Rs2143 crore in FY2020 [13]. Increased trend in profit margin has also helped this company to divert its capital in fulfilling CSR initiatives effectively.

## 6. Methodology

### 6.1 Data Collection and Sample

Collection of data is being done from various authentic websites of companies and additional data has been gathered from journals of renowned scholars. A sample of top 100 companies positioned on the basis of revenue generation in "The Economic Times 500" is being collected. Hence, this collection is done with an aim to analyse a company's financial performance after implementation of "corporate regulation regulations". This research has included the survey that was conducted to collect the primary data from different respondents. Moreover, the primary data is also collected by the ***SPSS method*** since it is more helpful and easy for use. Primary sources of data for this study are "published annual report", "business responsibility report" and "sustainability report" of the companies that are going to be evaluated in the discussion section.

### 6.2 Measurement of Corporate Governance

Index related to corporate governance is being used within this study for measuring development within the Indian companies. The used index is based on Clause 49 as modified by Indian Government in "Companies Act 2013". Furthermore, guidelines provided by "Ministry of Corporate Governance" for a better CG framework have been incorporated for measuring performance effectively. Mandatory disclosures are being included within this study such as "CFO certification of financial statements", "appointing audit committee", and "certificate of compliance by board of directors" [14]. Stakeholder approach has been incorporated while measuring CG impact as a result various stakeholders from different responsibility centres are pointed out. This initiative helps to measure "cumulative corporate governance performance" for meeting objectives of corporate businesses. Comparison of a sector's CG with another one is done with the help of percentage score of a single sector for every stakeholder. ***The basic formula is "[Actual total Score of Sector for Each Stakeholder / (No. of companies in each Sector * Total Score for Individual Stakeholder)*100]"*** [15]. These calculated data will serve as first hand or primary data created mainly for this research.

### 6.3 Techniques for measuring Financial Performance

Most of the financial analysts use common three approaches to measure financial performance of companies using CG regulations. The approaches are "***Accounting Ratios***", "***Market Valuation Ratios***" and ***Mixed Ratios*** based on market as well as marketing [16]. The study showcases differences among various organizations that are incorporating financial ratios and those that are not to get a clear view on transactions in "corporate governance index". Furthermore, a correlation between financial performance and corporate governance is being reflected to consider a third approach known as "Market Capitalization" and "Price Earning" to evaluate market valuation ratios. "***Return on Assets***" (ROA), "***Return on Equity***" (ROE) and "***Return on Sales***" (ROS) are accounting ratios that are being observed through a company's financial information to evaluate CGR potentiality [16]. A size of a company is considered as an essential "control variable" that provides a suggestion larger companies often have a capacity to adopt economic and social governance regulations. More incorporation of CG principles and reflection through actions help in attracting attention of stakeholders.

## 7. Data Analysis

### 7.1 Quantitative Data Analysis

***7.1.1 Current reforms on corporate governance within different companies***

***Indian Government Initiatives on Corporate Governance***

The realisation of good governance requirements by Indian Government led to the creation of several committees such as "***Naresh Chandra Committee***", "***Kumar Mangalam Birla Committee***" and "***Narayan Murthy Committee***". A range of initiatives has been taken by Indian Government from past decades in form of reforms [17]. The reason is improved functioning of "capital market", production from effective shareholder protection belonging to minor groups and disclosure of high-standard transparency. Reforms initiated from "Government of India" (GOI) within governance procedure through government institutions and legislations from mid nineties. Various amendments were included within "Companies Act 1956" for meeting good CG practices and "statutory regulations" as chalked out by SEBI.

"***The Companies Bill 1997***", "***The Companies Act, 1999***", "***The Companies Act, 2000***", and "***The Companies Act, 2001***" framed required changes within every Act to adapt with the changing business environment for controlling corporate governance properly. Voluntary initiatives are taken by professional bodies, business associations, and industry chambers to precede the reforms effectively [18]. Gradually, GOI formed "***Companies Act 2013***" with an objective to fulfil various regulations related to good governance. Mainly initiatives are being taken through focusing on "pro-business initiatives";"e-Governance initiatives"; "enhanced disclosure of norms"; "audit accountability"; "strict enforcement of laws". GOI initiatives from 1999 have chalked out a focused CG framework that looks over minority shareholders protection, maintaining accountability of management and board of directors of a company, adequate disclosure with timely reporting of financial statements to shareholders and balancing CSR.

***Evidence from Companies***

"***Bharti Airtel", Bosch, "HDFC Bank", Infosys, "Mahindra and Mahindra Financial Services", Marico and Wipro*** are performing in Indian economy for a long period with enhanced governance practices through following Companies Act regulations. Companies belonging to the Sensex group have a high tendency to provide better disclosure in robust format with adequate balances creating a path for high governance threshold [19]. In Indian economy companies belonging to the service sector have a better score in providing good CG practices. Among all the existing sectors telecom, financial services, and information technology lead the chart of having higher scores in CSR. I***nfosys is considered as one of the most efficient companies that follow best incorporation of CG regulations*** to follow CSR activities properly. As per Asia Money's survey this company's CG practices incurred 17.74%, transparency level was 20.90% , responsibilities from BOD and management's end scores 18.75% and treatment on equitable rights of shareholders was 20.93% [21].

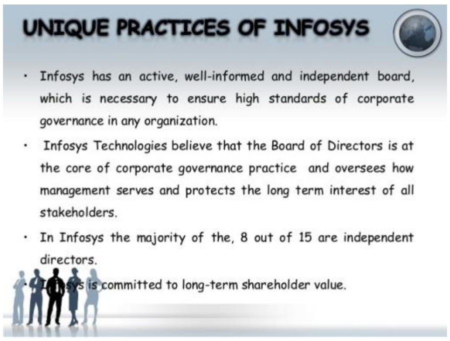


**Figure 1: CG initiatives by Infosys**
(Source: [21])

A high percentage among all aspects creates a confidence among Infosys's financial backers and investors. Infosys has been declared as one of the best managed capital companies as it has growing capability of profit level and cost controlling capacity. ***Satyam*** started facing huge financial problems from 16th December, 2008 and this company did not disclose any details to existing stakeholders. Share prices plunged by Satyam by 55% led to the resignation of many independent directors. This company projected fictitious revenue of Rs532.8 crore and fictitious interest of Rs899.8 crore indicating a poor corporate governance practice. Evidently, these numbers and information are all considered as quantitative data. These data will be useful in having a statistical approach to this research.

***7.1.2 Different sector performance under corporate governance***

India is a developing country and performs actively for preparing a growing economy and creating a high scope for investment opportunities across different sectors. India's GDP is being contributed through constant production from varied industries [37]. In India, 29.5% is contribution from horticulture of agriculture. 2.3% contribution to India's GDP from manufacturing and selling of Auto Components. On the other hand, India belongs to "the world's 4th largest vehicle company" and the country's GDP contribution from Automobile Industry is 7.1%. Aviation industry runs both international and domestic flights which leads to 14.4% growth in performance through increased "passenger traffic growth". India expects 29% growth in form of "return on investment" (ROI) from global Fintech projects as a result financial and financial service providing performance is growing rapidly [22]. Expected "Compounded Annual Growth Rate" (CAGR) from the Biotechnology industry is 14% by India's economy. India contributes 12% in the form of capital goods within the overall manufacturing mechanism. Global chemical industry is being supported by 3% production from the end of Indian developers. "Nation's Gross Value" of 1.4% is being added from this industry and India holds 11.3% export shares for chemical products.

"***Tata Power Company Limited***" belongs in India's electric utility industry since 1919 and provides best governance practices within ongoing business operations. This company enters in the "leadership category" and earns a high position within "Indian Corporate Governance Scorecard 2019" [23]. This scorecard has been developed by joint initiative through BSE Limited, "International Finance Corporation" and "institutional Investor Advisory Services Limited" with support of Finance from Japan's Government. Tata Power gains the position within top 10 companies that have shown immense growth in governance scores.


**Figure 2: Evaluation of CG and CSR**

(Source: [15])

The CEO of this company provided a brief viewpoint on the achievement and primary reason was sound management through transparent activities to implement good governance practices. Furthermore, this company encompasses every day's activities for building effective management procedures and paves a path to shine brighter than its existing competitors [20]. This company maximises shareholders value for a longer period through compulsory social obligations, integrity as well as regulatory compliances. Enhanced CG practices within this company helps to focus globally through including strategic ideas on investing in Indonesian company, "PT Kaltim Prima Coal (KPC) with 30% stake.

Observing the ongoing performance of various existing sectors in India an assumption has been drawn that most of the large companies follow good CG. Disclosing fake financial information creates hurdles for businesses to move forward and bankruptcy will surely happen as seen in the Satyam scam case. The sudden rise of Covid19 situation has created a difficulty to perform effectively by companies of all sectors for the last two years. Hence, Indian GDP has fallen down by -7.96% in FY2020 which does not impact any CG regulations [24]. Only, companies' level of profitability decreases due less flow of operations as a result performing social or environmental activities becomes tough.

***7.1.3 Corporate Governance Performance on Financial Performance***

***Firm Performance***

Before proceeding to a company's financial performance, it is necessary to understand two broad categories of performance measurement technique. "***Market Based***" and "***Accounting Based***" performance helps to evaluate a company's ongoing capacity to earn a better position of profitability. Market value of a company determines market performance of that business compared to its existing competitors [26]. Investors of a specific company use market based performance as a benchmark to make future decisions on investment. Historical information is being gathered from this performance outcome as a result investors chalk out an intra performance of a company. "***Price to Earnings Ratio***", "***Earnings per share***", "***Economic Value Added***", "***Tobin's Q***", "***Market Value Added***" and "***Market to Book Value Ratio***" are various techniques utilised by most of the global companies to measure market performance. Measurement based on accounting is considered to be more reliable for organizations listed in various national or international exchanges [27]. Since those companies follow global accounting standards and acquire investors all around the world. Generally, accounting performance provides past financial information of a company and creates a scope for forecasting financial statements properly. ***ROA, ROE, ROS, "Net Profit Margin", and "Return on Capital Employed" (ROCE)*** are certain mentionable techniques used to measure accounting performance.

***Relationship between CG mechanism and "Firm performance" in India***

A sample of 141 organisations has been selected from "A group stocks listed in the Bombay Stock Exchange (BSE) of India" covering up 18 industries. In order to analyse the relationship between firm performances of Indian companies that have incorporated CG regulations. All the selected companies have used three indicators for measuring a composite CG execution through ongoing business operations [28]. The indicators are proactive, legal and broad for evaluating the relationship with high efficiency. Multiple regression techniques are being followed by those companies with proper steps through using ROA ratio for indicating firm performance revealing information on CEO-duality, broad composition, broad size, frequency of meetings, and increased number of broad meetings [36]. Similarly, proactive indicators also provide proper information related to a business's performance. Overall, it is being seen that "composite corporate governance" is one of the effective predictors for analysing a firm's performance.

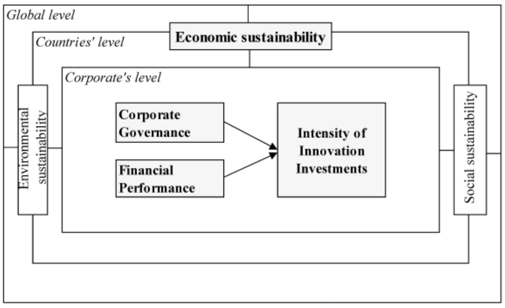


**Figure 3: Financial Performance and CG**
(Source: [28])

***Financial Performance***

A company's liquidity risk is being occurred by both internal as well as external factors. This concept becomes clear through ***Starbucks'*** case study where the company's liquidity risk is being affected through ROA (internal factor) and US's GDP (external factor) [25]. The rise of liquidity risk within this company signifies insufficient number of investors for purchasing or selling of investment present within the stock exchange. Hence, Starbucks had to improve internal company performance as impact from external factors is out of hand. All the improvements and activities by this company need to be present in financial statements to maintain transparency for better CG practices.

This research has analysed the survey conducted based on demographics and other elements such tenure and income of the participants of the survey. These data will be further used to deduce the influence of successful corporate governance on the financial performance of the particular organisation.

### 7.4 Quantitative data analysis

The following analysis has been conducted by taking responses from 100 managerial level employees from the top 100 companies listed in the Economic Times 500 according to the generation of revenue.

### *7.4.1 Demographic Analysis*

| Gender | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 48 | 48.0 | 48.0 | 48.0 |
| | Female | 52 | 52.0 | 52.0 | 100.0 |
| | Total | 100 | 100.0 | 100.0 | |

**Table 1: Frequency for Gender**
(Source: SPSS)

The above frequency table displays the gender of respondents in this study, it can be observed that 48% of respondents were male and 52% were female

| Age | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 25-30 | 10 | 10.0 | 10.0 | 10.0 |
| | 30-35 | 33 | 33.0 | 33.0 | 43.0 |
| | 35-40 | 36 | 36.0 | 36.0 | 79.0 |
| | 40-45 | 21 | 21.0 | 21.0 | 100.0 |
| | Total | 100 | 100.0 | 100.0 | |

**Table 2: Frequency for Age**
(Source: SPSS)

The above table displays the age of respondents in this study, it can be seen that 10% of respondents were among the 25-30 age group. The majority of respondents (36%) belong to the 35-40 age group, followed by 33% from the 30-35 years group.

| Income | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1 lakh-3 lakh | 18 | 18.0 | 18.0 | 18.0 |
| | 3 lakh-5 lakh | 52 | 52.0 | 52.0 | 70.0 |
| | 5 lakh-10 lakh | 27 | 27.0 | 27.0 | 97.0 |
| | 10 lakhs and above | 3 | 3.0 | 3.0 | 100.0 |
| | Total | 100 | 100.0 | 100.0 | |

**Table 3: Frequency for Income**
(Source: SPSS)

The frequency table for income, displays that the majority (52%) of the respondents earn about 3-5 lakh per month. Further, it can be seen that 27% of respondents earn 5-10 lakh per month followed by 18% earning 1-3 lakh. About 3% of the respondents displayed earnings of 10 lakhs and above.

| Tenure | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 15-20 years | 15 | 15.0 | 15.0 | 15.0 |
| | 20-25 years | 63 | 63.0 | 63.0 | 78.0 |
| | 25-30 year | 22 | 22.0 | 22.0 | 100.0 |

| | | | | | |
|---|---|---|---|---|---|
| | s | | | | |
| | Tota l | 100 | 100.0 | 100.0 | |

**Table 4: Frequency for Tenure**

(Source: SPSS)

The above table sheds light on the frequency for the tenure a participant spent in their respective companies. It can be observed that 63% of respondents have been working for about 20-25 years, followed by 22% of respondents working for 25-30 years. The remaining 15% of respondents have a tenure of about 15-20 years.

### *7.4.2 Descriptive Statistics*

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Does the organization have articles of incorporation in accordance with local legislation, and has provisions on information disclosure and transparency of the company's activities | 100 | 1 | 2 | 1.29 | .456 |
| Does the organization have articles of incorporation per local legislation, and has provisions on the distribution of authority between the Annual General Meeting of Shareholders, the Board of Directors, and executive bodies | 100 | 1 | 2 | 1.43 | .498 |
| Does the organization have articles of incorporation in accordance with local legislation, and has provisions on the protection of shareholder rights and the equitable treatment of shareholders | 100 | 1 | 2 | 1.21 | .409 |
| Does the organization have/apply a code of ethics | 100 | 1 | 1 | 1.00 | .000 |
| Does the management/Board of Directors organize annual corporate events such as Board meetings, and General Shareholder Meeting | 100 | 1 | 2 | 1.10 | .302 |
| Are the internal control of the organization documented in regular intervals | 100 | 1 | 2 | 1.08 | .273 |
| Does the organizational audit committee review key elements in financial statements | 100 | 1 | 2 | 1.16 | .368 |
| Valid N (listwise) | 100 | | | | |

**Table 5: Descriptive Statistics for Corporate Governance**

(Source: SPSS)

The above descriptive table displays the minimum, maximum as well as central tendency values for responses. The minimum value and maximum values respectively display the lowest as well as the highest number of responses for one option [45]. The mean value for the first question is seen to be 1.29 this indicates that most respondents stated that their organization is in accordance with local legislation related to corporate governance and are transparent with their activities. Proper information disclosure allows better stakeholder engagement leading to better investment opportunities [41].

Transparency ensures higher customer loyalty resulting in higher sales growth and financial stability. The mean for the next two parts of the first question is seen to be 1.43 and 1.21 respectively, this indicates that most organizations hold annual general meetings as well as maintain protection of rights that shareholders have.

The mean value for the second question is seen to be 1.00 indicating that all organizations implement a code of ethics. Having a code of ethics helps to set standards of behavior in the organization as well as creates a holistic organizational culture [43]. The last three questions display a mean of 1.10, 1.08, and 1.16 respectively, showing that the organizations hold annual corporate events to share information on their activities per quarter, document their internal control as well as review essential elements within the financial statements such as amounts payable.

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| In comparison to the competitors, was the sales of the company higher | 100 | 1 | 2 | 1.15 | .359 |
| In comparison to the competitors did the company achieve greater market share | 100 | 1 | 2 | 1.32 | .469 |
| Does the organization have a visible measure for all the expenditure on goods and services sold | 100 | 1 | 2 | 1.40 | .492 |
| In comparison to competitors, does your company have greater financial liquidity | 100 | 1 | 2 | 1.21 | .409 |
| In comparison to the competitors, did your organization improve its net profit after taxes | 100 | 1 | 2 | 1.14 | .349 |
| Valid N (listwise) | 100 | | | | |

**Table 6: Descriptive Statistics for Financial Performance**

(Source: SPSS)

The mean values for the 5 questions under the financial performance variable are under the threshold of 1.00-1.40. This indicates that most of the organizations have gained higher sales in comparison to their respective competitors as well as gained greater market share. Further, it can be seen that the companies applied visible measures for expenses, improved their net profit after taxes as well as had greater liquidity. Proper governance and compliance with rules can enhance sustainability, operational performance, and productivity leading to greater financial performance [42]. Confidence of shareholders in the organization and its services is an essential factor for increasing sales as well as market growth, apart from this better measures on the expenses allow better financial planning improving liquidity for organizations.

### *7.4.3 Correlation Analysis*

Correlations

| | | Corporate Governance | Financial performance |
|---|---|---|---|
| Corporate Governance | Pearson Correlation | 1 | .049 |
| | Sig. (2-tailed) | | .625 |
| | N | 100 | 100 |
| Financial performance | Pearson Correlation | .049 | 1 |
| | Sig. (2-tailed) | .625 | |
| | N | 100 | 100 |

**Table 7: Correlation**

(Source: SPSS)

The table displays that Pearson's correlation value for corporate governance and financial performance is seen to be .049. Values ranging from 0.01-0.20 indicate a weak positive correlation and values above .20-.60 are considered to have a moderate positive correlation [46]. The value for this study shows that there is a weak positive relationship between the variables of corporate governance and financial performance.

In developing economies compliance to governance allows better internal efficiency leading to higher levels of productivity [44]. This leads to greater generation of revenue ensuring stakeholder relations as well as affiliates' fairness and operational transparency. Maintaining governance within a corporation allows better return on investments by enhancing the confidence of shareholders in the organization. Thus it can be stated that placing an efficient set of policies and keeping a regular check on internal control can allow better financial performance. In accordance with this study, it can be seen that most companies have implemented a code of ethics ensuring proper behavior at the workplace improving productivity and efficiency.

The companies have also regularly checked on the internal control and set up annual meetings with stakeholders to improve their transparency and maintain a relationship of confidence and trust with both internal and external stakeholders. Corporate governance is an important concern for all organizations and must be implemented for better efficiency in terms of finance [43].However, there are other aspects such as marketing and management which also affect financial performance apart from corporate governance indicating a weak positive relationship between the study variables. However, it is necessary to maintain corporate governance for ensuring ethical business operations and avoid unnecessary risks.

## 8. Discussion

***CG an unseen force behind an enterprise***

Generating profit is not the primary function of a company, internal management has to look over market valuation, multiple turnovers and P/E valuation. Keeping a focus on various aspects of a business helps in building up image and position for sustain longer periods. Currently, CG has not remained a hidden force due to various global financial scandals [29]. Economic downturns, maligned reputations and numerous scandals are raising factors that have created necessary CG regulations. Most of the large global companies are putting effort in building concrete steps towards better CG to convert hard labour into profitability [35]. Primarily, companies chase towards forming monetary gains and take incorporation of CG for guaranteed. The requirements of CG regulations vary from industry to industry and also nationalities. Banks and Healthcare industry must comply with profound CG to maintain higher transparency as well as accountability. On the other hand, retail, FMCG and IT need to prioritize ongoing business operations according to good governance practices [30]. However, inclusion of CG regulations within these sectors is not going to improve market value. Incorporating CG approach must have a perfect balance between "excessive stringency" and flexibility. The framework of a company's operations maintaining CSR activities must be highly holistic taking into account the interest of every stakeholder.

***Current Reforms improved CG in Indian Companies***

Development of reforms related to CG helps Indian companies to take improved initiatives that are recognizable in fulfilling responsibility towards various stakeholders. Performance of listed companies has been enhanced through inclusion of internal efficiency approaches mentioned within clause 49. CG Index is being built up through different dimensions among which Indian companies lack in two dimensions [31]. Those are "number of independent directors on board" and "achievement of awards or recognition" to efficient employees during a year. A decreasing trend of independent directors among the total number of directors within a company creates inefficiency in CG practices. Creating a gap of shortage qualified directors within the corporate world for observing the performance of global companies. In addition to this, two positive steps became visible within Indian enterprises after CG reforms. The major steps are appointment of women directors within a company's board and introducing a diverse board committee for safeguarding shareholders' rights [32]. Indian companies are trying to match with mandatory requirements by ***spending 2% of profit amount for fulfilling CSR initiatives***.

***Governance Reforms have a Financial Linkage***

Better financial performance occurs through better CG implementation creating a smooth pathway for growth and revenue generation [33]. Firm performance is being impacted by internal control, remuneration and disclosures on shareholders rights. However, "disclosures related to broad accountability" do not create any impact on a company's stock prices. An interesting fact becomes visible after collection of information on financial performance of Indian companies following current CG reforms. The fact discloses after establishment of "new governance reforms", CG performance has been improved but financial performance decreases for certain companies. Summing up, the factor CG is considered as an essential variable that creates an influence on prosperous growth of an economy [34]. Best governance practices helps in reducing risk of a company's investors and prepares a scope for that company in improving financial performance by adding more investors to company profile.

## 9. Conclusion

The research paper concludes that CG is a rising requirement around the world among companies to ensure transparency and accountability in front of stakeholders. The study has been focused on Indian economy for giving a contrasting effect reflection of international economies. Significant development within India's corporate world has become visible after recent formation of CG reforms. Moreover, including best corporate practices within large renowned enterprises help in achieving objective of being more responsible towards all shareholders. Inclusion of at least one woman within a company's board of directors is referred to as a significant development from the part of Indian companies. Indian regulators further force independent directors for successful implementation of CG reforms. Current CG policies mention "a target for mandatory 2% spending of net profits on CSR" which has still not been achieved to certain extent. However, it is expected in near future Indian companies will identify certain main areas for bringing social responsibility for development of society.

All sectors aim in improving CG framework as it has become an important tool for recognizing best governance practices. Furthermore, this tool has become popular to attract more foreign investors through providing transparent financial statements. Incorporating CG frameworks with high efficiency has become a problem due to "interference of bureaucracy and corruption" within the Indian economy. Hence, market regulators of India have to be more powerful to strongly manage the listed companies and control the level of fraud. Imposing high penalties on the companies that do not includes mandatory CG policies. Reforms provide guidance in improving standards of CG but do not help in enhancing financial performance. Different financial ratios provide information on a company's market and accounting based performance.

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## Appendix

## Appendix 1: Questionnaire

### Section A: Demographic Questions

Q1. Gender

- Male
- Female

Q2. Age

- 25-30
- 30-35
- 35-40
- 40-45

Q3. Income

- 1 lakh-3 lakh
- 3 lakh-5 lakh
- 5 lakh-10 lakh
- 10 lakhs and above

Q4. Tenure

- 15-20 years
- 20-25 years
- 25-30 years
- 30 years and above

### Section B: Corporate Governance

Q5: Does the organization have articles of incorporation in accordance with local legislations, and has provisions on?

| | YES | NO |
|---|---|---|
| the protection of shareholder rights and the equitable treatment of shareholders | | |
| distribution of authority between the Annual General Meeting of Shareholders, the Board of Directors and executive bodies | | |
| information disclosure and transparency of the company's activities | | |

Q6: Does the organization have/apply a code of ethics?

- YES
- NO

Q7: Does the management/Board of Directors organize annual corporate events such as Board meetings, and General Shareholder Meeting?

- YES
- NO

Q8: Are the internal control of the organization documented in regular intervals?

- YES
- NO

Q9: Does the organizational audit committee review key elements in financial statements?

- YES
- NO

**Section C: Financial Performance**

Q10: In comparison to the competitors, was the sales of the company higher?

- YES
- NO

Q11: In comparison to the competitors did the company achieve greater market share?

- YES
- NO

Q12: Does the organization have a visible measure for all the expenditure on goods and services sold?

- YES
- NO

Q13: In comparison to competitors, does your company have greater financial liquidity?

- YES
- NO

Q14: In comparison to the competitors, did your organization improve their net profit after taxes?

- YES
- NO